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UNITED STATES DEPARTMENT OF AGRICULTURE
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CCC COTTON LOAN, PURCHASE AND EXPORT PROGRAM

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Commodity Credit Corporation was incorporated October 16, 1933, pursuant to an executive order. In January 1935 the Corporation was recognized by the Congress as an Agency of the United States, and has been authorized from time to time to continue as an agency of the United States until the close of business June 30, 1945.

The Corporation was organized to perform such functions as were necessary to effectively and efficiently carry out the provisions of various recovery acts, principally the Agricultural Adjustment Act approved May 12, 1933. With the passage of the Agricultural Adjustment Act of 1938, loans by Commodity Credit Corporation on the basic commodities have been made pursuant to the directions contained in said Act. The Act of July 1, 1941, commonly referred to as the Steagall Amendment, directed that loans be made available on nonbasic agricultural commodities where necessary to encourage the expansion of production of such commodities. Nonbasic commodities are any commodities other than the basic crops of cotton, corn, wheat, tobacco, peanuts, and rice. The Corporation carries out its functions through purchase or loan programs on commodities.

The loan program on cotton is designed to promote orderly marketing of the crop. Producers on the average sell the following percentage of their crop each month: August 4.6 percent, September 16.9 percent, October 27.0 percent, November 20.9 percent, December 10.9 percent, January 4.7 percent, February 3.3 percent, March 3.5 percent, April 2.5 percent, May 1.8 percent, June 1.9 percent, July 2.0 percent. The heavy marketing of the crop from September through December can depress the market to producers during their active market period. The loan program permits the farmer to carry his crop at a reasonable cost until later months when the weight of the movement has passed and thereby promote orderly marketing.

Cotton yields per acre are subject to large fluctuations due to weather, insects, or other factors beyond the farmers' control. A large yield per acre due to good weather frequently causes a depressed price during the marketing season. The cotton yield per acre has fluctuated during the past 15 years from 157# in 1930 to an indicated yield of 293# in 1944. The loan provides protection against a drastic decline in price due to conditions over which the producer has no control.

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The loan likewise enables the producer and his credit agency, such as the bank or other financing organization, to make plans for the crop based upon a minimum guaranteed price. This prevents violent fluctuations in prices which are injurious to the producer, credit agencies, and other business in the cotton area.

During the war period it has been necessary to stress the production of certain types of cotton. The demand for uniform cloth and similar material created a greatly increased demand for cotton with a staple length of 1 1/8 inch and longer. When Rommel was about to capture Egypt, it was necessary to increase the production of SxP from 32,325 bales in 1940 to 59,617 bales in 1943. It was also necessary to secure some of the longer and stronger Sea Island cotton for the Navy's dirigible program. All of these requirements were met by adjusting the loan or purchase price of the required cotton to insure maximum production of the needed cotton.

The first cotton loan of the Corporation was made on 1933 crop cotton. This loan was based on a flat rate of 10 cents per pound compared with a July 15th 1933 parity price of 14.51 cents per pound, or 68.9 percent of parity. The loan was continued on the basis of a flat rate in cents per pound for principal qualities of cotton until the 1938-39 loan program when a schedule of premiums and discounts were announced which reflected approximate market value. Location differentials were inaugurated in the 1939-40 loan program. The value of cotton for spinning purposes varies with the grade and staple. The value also varies with the location of the cotton in regard to the proximity to the mill where the cotton is consumed or to ports when there are active export markets. The loan program now covers all commercial qualities of cotton quoted on the 10 spot markets. The loan values are based on the spot market quotations for premiums and discounts and on location as related to the principal consuming area known as the Group B mill area.

The program is financed through lending agencies, principally banks, or cooperative associations, and direct loans by the Corporation. The Producer pays 3 percent interest for the loan with the warehouse receipts as collateral. The lending agency advances the funds and receives 1 1/2 percent interest, and the Corporation receives 1 1/2 percent interest. The Corporation offers to purchase the entire loan at any time thereby in effect providing the lending agency with a call loan bearing 1 1/2 percent interest for their participation in the program.

The producers who placed their cotton in the loan have generally shown a profit each year with the exception of the 1934 and 1937 crops. The margin of profit was small on the 1935 crop. The largest margin of profit was in the 1939, 1940, and 1941 crops.

The farm price of cotton dropped from 38.5 cents per pound in April 1920 to 9.5 cents in April 1921. This violent price fluctuation caused disaster to

southern farmers and to business in the South. Many farmers were forced to place long term mortgages at high interest rates on their land thereby incurring high fixed charges for a ten to twenty year period. The loan provides price protection to cotton farmers against such drastic price fluctuations.

The loan rate for cooperators has been fixed by the Congress at the following rates. The AAA Act of 1938 as amended fixed the rate at "not less than 52 per centum and not more than 75 per centum of the parity price of cotton as of the beginning of the marketing year." The Act of May 26, 1941, fixed the "rate of 85 per centum of the parity price for the commodity as of the beginning of the marketing year." The Stabilization Act of 1942 as amended provided for loans "at the rate of 90 per centum of the parity price". This was later amended to read "at the rate in the case of cotton of $92\frac{1}{2}$ per centum - - - of the parity price for the commodity as of the beginning of the marketing year." The Surplus Property Disposal Act provides for an increase in the loan rate "at the rate in the case of cotton of 95 per centum. The amendment made by this section shall be applicable only with respect to crops harvested after December 31, 1943, but shall not apply to crops planted after 1944."

Loans on cotton for the 1945 crop will be available under the present law at $92\frac{1}{2}$ percent of parity. Loans will be available at this rate until "the expiration of the two year period beginning with the first day of January immediately following the date upon which the President by proclamation or the Congress by concurrent resolution declares that hostilities in the present war have terminated, if producers have not disapproved marketing quotas for such commodity for the marketing year beginning in the calendar year in which such crop is harvested."

The Corporation has made loans on 29,341,000 bales of cotton up to October 31, 1944. The producers have redeemed 18,341,000 bales. The Corporation acquired title to 6,923,000 bales of which 4,698,000 bales have been sold. The producers still hold 4,077,000 bales under loan or in a pool.

When consideration is given to future price support programs at least two views must be considered. (1) If an adjustment period is expected after this war as after the last war when the farm price of cotton fell in 12 months from 38.5 cents per pound to 9.5 cents per pound, the producer should have price protection against such drastic price fluctuations. (2) The world price of cotton is lower than the American price of cotton and tends to limit exports. The synthetic fibers and substitute materials offer keen competition for cotton in the domestic market. If markets are thus limited, the cotton producers' market is like wise limited. The problem is to devise a program which will cover these opposite viewpoints as to cotton prices.

The 1944 Cotton Purchase Program:

The Stabilization Act of 1942 as amended (passed June 30, 1944) provided that "The President, acting through any Department, Agency, or office of the Government, shall take all lawful action to assure that the farm producer of any of the basic agricultural commodities (cotton, etc.) - - - receives not less than the higher of the two prices specified in clauses (1) and (2) of this section." Parity was the higher of these prices. Cotton had not reached parity after the announcement of various steps, such as the 1944 cotton loan program, and adjustments in textile price ceilings. The estimate of the 1944 crop proved larger than expected. A purchase program was announced for cotton on September 24, 1944. The CCC offered to purchase cotton at a sliding scale of rates on the average for Middling 15/16 inch cotton ranging from 21.90 in October 1944 to 22.25 cents per pound in May 1945 and averaging about parity. The tight warehouse and labor situation made it impossible to store all cotton as ginned and the increasing scale of purchase rates was devised to compensate the producer who could not get his cotton in a warehouse until a later date. The cotton is being purchased on gross weight. Banks, cooperatives, and others, acting as lending agencies under the loan program were asked to qualify as purchasing agencies, as well as other qualified purchasing agencies. The purchasing agency is paid 50 cents per bale for its services plus reimbursement of cash or a Treasury guaranteed 1 percent note. The provisions for sampling, warehousing, and handling the cotton closely parallel the loan program. Cotton is only purchased from producers and is eligible to be purchased until June 30, 1945, the end of the present law.

Cotton merchants can purchase cotton in a normal manner at the levels of the purchase program and sell this cotton to mills at the price levels allowed mills for cotton in their price ceilings.

EXPORT PROGRAM

Domestic cotton prices are higher than the world level of cotton prices. While exports are limited under war conditions if American cotton is to compete with foreign growths it is evident that American cotton must sell at competitive prices in the export markets of the world. The Congress recognized this fact and made the following provisions in the Surplus Property Act. "(c) Surplus farm commodities shall not be sold in the United States under this Act in quantities in excess of, or at prices less than, those applicable with respect to sales of such commodities by the Commodity Credit Corporation, or at less than current prevailing market prices, whichever may be the higher, unless such commodities are being disposed of, pursuant to this Act, only for export; and the Commodity Credit Corporation may dispose of or cause to be disposed of for cash or its equivalent in goods or for adequately secured credit, for export only, and at competitive world prices, any farm commodity or product thereof without regard to restrictions with

respect to the disposal of commodities imposed upon it by any law: Provided, That no food or food product shall be sold or otherwise disposed of under this subsection for export (1) if there is a shortage of such food or food product in the United States or if such sale or other disposition may result in such a shortage, or (2) if such food or food product is needed to supply the normal demands of consumers in the United States."

Immediately prior to the announcement of the Export differential of 4 cents per pound, Brazilian Type 4 cotton was selling for 17.82 cents per pound, net weight, export tax paid f.o.b. the port of Santos. Type 5 was 17.14 cents per pound. Old crop Indian cotton about equal to Strict Middling 7/8 inch Middling American was selling for 14.92 cents per pound, net weight, f.o.b. India. Old crop Indian cotton equivalent to Strict Low Middling 13/16 inch, net weight, was selling for 10.83 cents per pound f.o.b. India. Prices of various growths were checked and it was determined that an export differential of 4 cents per pound should place American cotton on a competitive basis.

As the war progresses, export markets will develop and American cotton should have an equal chance to sell in the export markets of the world. It is obviously in the best interests of American cotton producers that cotton be sold at the best level possible and at the same time compete with other fibers in the world market.

Under the Export Program cotton will be made available by the Commodity Credit Corporation to exporters at competitive world prices to be announced from time to time by the CCC.

All practicable steps will be taken to encourage the exportation of the qualities of cotton of which the greatest surpluses exist, and to protect domestic supplies of those qualities of cotton which are found to be in relatively short supply. For the time being Good Middling rain-grown cotton 15/16 inch and longer will not be offered for export under the program.

The procedure in general is that Commodity Credit Corporation will announce the prices at which it will sell cotton for export. Upon registration of export sales with the CCC the Corporation will (1) supply the cotton at the designated export price, or (2) authorize the exporter to purchase cotton in the domestic market at the domestic price, and then receive from the Corporation the announced differential between domestic prices and the announced export price.

Exporters of cotton, will be required to furnish satisfactory evidence of exportation and to furnish bonds to cover their liability to Commodity Credit Corporation. Exporters will be required to report existing contracts to export cotton and will not be permitted to cancel these contracts and replace such contracts with new contracts under the terms of the program.

The export price of Middling 15/16 inch cotton will be the average price on the 10 spot markets for Middling 15/16 inch on the day that CCC is notified of the export sale plus 60 points to convert the price to a Group B warehouse location, less the announced export differential. The location differential will be the location differential applicable under the 1944 Cotton Loan Program. The premiums and discounts on tenderable qualities will be the average of the 10 spot markets on the date the CCC receives notice of the export sale. The premiums or discounts on nontenderable qualities will be those announced from time to time.

There is currently a shortage of cotton textiles in the United States. A program covering the export of cotton textiles, and covering import programs as well, is being developed in cooperation with exporters and trade organizations. This program will be announced later when a surplus of cotton textiles may be available for export. A program to cover cotton waste also will be announced later.

COTTON LOANS

Year	Production : (1000 running : Bales)	Pledged : 1000 : (Bales)	Face Amount : of loans : (1000 dollars)	Loan : Rate <u>3/</u> : (cents per lb.)	Redeemed : By Producers: : (1000 Bales)	Held by : Producers: : (1000 Bales)	Acquired : by CCC : (1000 Bales)	Held by : CCC <u>2/</u> : (1000 Bales)
1933-34	12,664	1,926	99,498	10.00	1,926	-	-	-
1934-35	9,472	4,632	282,644	12.00	2,967	-	1,665	668
1935-36	10,420	115	5,777	10.00	115	-	-	-
1936-37	12,141	No	Loan	-	-	-	-	-
1937-38	18,252	5,581	243,275	9.00	325	-	5,256	1,565
1938-39	11,623	4,482	205,329	8.30	4,482	-	-	-
1939-40	11,481	30	1,324	8.70	30	-	-	-
1940-41	12,298	3,180	153,140	8.90	3,180	-	-	-
1941-42	10,409	2,221	153,617	14.02	1,943	273 6/	-	-
1942-43	12,438	3,143	264,661	17.02 4/	1,855	1,286 6/	2	2
1943-44	11,129	3,595	342,100	18.41	1,512	2,083	-	-
1944-45	11,928 1/	436 2/	47,180 2/	20.03 5/	1 2/	435	-	-
Total	144,321	29,341	1,798,545	-	18,341	4,077	6,923	2,235

1/	Estimate based on November & cotton production.	2/	Report as of October 31, 1944.	3/	Basic loan rate on Middling
7/3	inch cotton, gross weight.	4/	Based on 90% of parity.	5/	Based on 95% of parity.
				6/	Pooled for producers
					account.

Loans have been made on approximately 20.3 million bales of cotton from the 1933 to 1944 (through October 31, 1944) crops in the amount of about 1.8 billion dollars. The average loan rate, by years, for Middling 7/8" inch cotton, gross weight, during this period has varied from a low of 8.30 cents per pound in 1938 to a high of 20.03 cents per pound in 1944. Farmers have redeemed approximately 18.3 million bales; and the Corporation has taken title to about 6.9 million bales - practically all from the 1934 and 1937 crops. About 1.6 million bales have been pooled and will be distributed to the producers in proportion to their interest in the pool, and the net proceeds, if any, will be distributed to the producers in proportion to their interest in the pool.

Disposition of cotton acquired has been as follows: 600 thousand bales to Great Britain for rubber in the barter deal; 2.0 million bales supplied under lend-lease arrangements, largely to Great Britain; 1.4 million bales under the 1942 and 1943 general sales programs; 400 thousand under the export program, largely to Canada; 200 thousand bales under the new uses program; and about 100 thousand bales for other purposes.

AMOUNT OF COTTON REDEEMED BY PRODUCERS DURING YEAR
ENDING JULY 31, BY COMMITMENTS, BY YEARS
(1000 Bales)

Commitment (Year)	Repaid	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945
1933	1,926	831	1,095	-	-	-	-	-	-	-	-	-	-
1934	2,967	-	179	1,293	1,491	1	3	-	-	-	-	-	-
1935	115	-	-	37	78	-	-	-	-	-	-	-	-
1936	No	Loan	-	-	-	-	-	-	-	-	-	-	-
1937	325	-	-	-	-	284	25	16	-	-	-	-	-
1938	4,482	-	-	-	-	-	369	2,044	1,819	239	11	-	-
1939	30	-	-	-	-	-	-	9	19	2	2/	-	-
1940	3,180	-	-	-	-	-	-	-	3,078	99	3	-	-
1941	1,948	-	-	-	-	-	-	-	-	1,250	372	326	-
1942	1,855	-	-	-	-	-	-	-	-	-	861	775	219
1943	1,512	-	-	-	-	-	-	-	-	-	-	1,212	300
1944	1	-	-	-	-	-	-	-	-	-	-	-	1
Total	18,341	831	1,274	1,330	1,569	285	397	2,069	4,916	1,590	1,247	2,313	520

1/ Report as of October 31, 1944.
2/ Less than 500 bales.